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# HEALTH INSURANCE COVERAGE FOR WORKERS ON LAYOFF.

BY- KOLODRUBETZ, WALTER W.
BUREAU OF LABOR STATISTICS (DEPT. OF LABOR)

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ESTIMATES OF GROUP HEALTH INSURANCE COVERAGE BY INDUSTRY INDICATE THAT EXTENDED PROTECTION DURING LAYOFF IS GUARANTEED TO NO MORE THAN A TENTH OF THE APPROXIMATELY 50 MILLION WORKERS COVERED BY GROUP HEALTH INSURANCE PLANS. THIS COVERAGE HAS LARGELY DEVELOPED DURING THE PAST 15 YEARS. FRAGMENTARY DATA SUGGEST THAT INCREASED COST ATTRIBUTABLE TO EXTENSION WOULD BE RELATIVELY SMALL IN RELATION TO THE COST OF THE ENTIRE GROUP INSURANCE PLAN. MOST COMMERCIAL INSURERS NOW CONSIDER THE EXTENSION OF COVERAGE FOR LIMITED PERIODS DURING TEMPORARY LAYOFFS AS A FEASIBLE UNDERWRITING PRACTICE. TYPICALLY, THE ISSUE OF EXTENDED LAYOFF COVERAGE HAS BEEN BROUGHT TO THE BARGAINING TABLE BY THE UNION AS A PART OF A HEALTH INSURANCE PACKAGE DEMAND, BUT THE BENEFIT HAS AT TIMES BEEN INITIATED BY MANAGEMENT. DESPITE A GENERAL LACK OF UNDERSTANDING OF HEALTH INSURANCE PROVISIONS AND POLICIES, MOST WORKERS DEMONSTRATED AN AWARENESS OF THEIR BENEFITS AND AN APPRECIATION OF THEIR VALUE. EMPLOYER PRACTICES WITH REGARD TO NOTIFYING WORKERS OF THEIR BENEFIT RIGHTS VARY FROM FORMAL EXIT INTERVIEWS AT WHICH RIGHTS AND BENEFITS ARE EXPLAINED TO ISSUING "PINK SLIPS" AND LEAVING WORKERS TO THEIR OWN DEVICES. THIS ARTICLE IS A REPRINT FROM THE "MONTHLY LABOR REVIEW," AUGUST 1966. (EM)

# Health Insurance Coverage for Workers on Layoff

WALTER W. KOLODRUBETZ*

SINCE voluntary group health insurance plans are designed to protect employed workers and their families, coverage is usually terminated when a worker loses his job or is put on an extended layoff. Probably not more than a tenth of employed workers with such insurance, financed in whole or in part by their employers, would retain coverage in the event of an extended layoff; but even for them, the duration of extended benefits may not cover the entire layoff period. Such uncertainties surrounding health insurance protection add another facet to worker fears of long layoffs or loss of job.[1]

There is usually little incentive for an employer to extend group health insurance to workers on layoff except when there is a reasonable expectation that the workers will be recalled in a short time. There may also be a good reason for caution toward what may turn out to be a costly step. Administrative convenience, on the other hand, encourages continuation for a short period, such as to the end of the month of layoff. Employers also respond to the social welfare considerations inherent in the practice.

Although not usually a major union goal, the extension of coverage to layoff periods has increased significantly in recent years, chiefly in response to union concern with employment security. Significant changes in the duration and financing of the extended benefits have also been negotiated.

Pressure for the introduction of extended benefit coverage or improvement in such coverage is a function of the employment situation. As long as unemployment is at a low level, it is likely that little action on this front can be expected from private plans, particularly since insurers have little incentive to promote such coverage. If the economy takes a reverse turn, however, interest may be expected to increase.

Although comprehensive information on the direct cost of continuing benefits during layoff periods is not available, fragmentary data suggest that the increase in cost is relatively small in relation to the cost of the entire plan. The costs due to higher utilization and to adverse selection are even more difficult to ascertain, although existing evidence indicates that they are not prohibitively high. In the long run, the growth and improvement of continuation provisions will depend, to some degree, on costs attributed to them. As the cost of medical care rises, more attention will be given by employers and insurers to potential costs involved in providing benefits during layoffs. On the other hand, the higher the cost of medical care the greater will be the workers' and unions' appreciation and desire for the protection of continued coverage.

## Coverage

Provisions extending benefits to layoff periods have been incorporated into many health insurance plans in recent years, mainly in collectively bargained plans in manufacturing industries such as primary metals, transportation equipment, rubber products, food products, and electrical equipment. In addition, the operating and nonoperating railroad employees' national plans have such provisions. Extension is found chiefly in plans for production workers, although sometimes it is also offered to clerical employees. Estimates of group health insurance coverage by industry indicate

*Of the Office of Wages and Industrial Relations, Bureau of Labor Statistics.

[1] Information upon which this article is based was obtained from a broader study of manpower-mobility implications of the extension of health benefits to laid-off workers. As part of this study, Bureau representatives interviewed officials of major insurance companies to assess and evaluate the practice. The views of unions, management, and workers were obtained through a series of case studies of manufacturing plants which extended coverage to laid-off workers and which had a recent layoff. The study, specifically required by section 102(2) of the Manpower Development and Training Act, was undertaken by the Bureau at the request of, and with funds provided by the Department's Office of Manpower, Automation, and Training (now the Office of Manpower Policy, Evaluation, and Research).



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that extended protection during layoff is guaranteed to no more than a tenth of the approximately 50 million workers covered by group health insurance plans.[2]

The extended coverage is usually continued on the same basis as that for active employees, and under the same financing arrangements. Typically, it provides hospital, surgical, and medical care protection to the eligible worker and his dependents for a specified period of time after layoff, usually 2 or 3 months.

Exceptionally long periods of protection are provided in motor vehicle and farm equipment manufacturing industries, where the United Automobile Workers have negotiated plans tied to supplemental unemployment benefit (SUB) entitlement. They currently provide employer-financed health insurance benefits to laid-off employees for a maximum of 13 months after the month in which the layoff began.[3] Liberal provisions are also found in the primary metals, rubber products, food products, and electrical machinery manufacturing industries.

### Effectiveness of Protection

The number of laid-off workers covered by voluntary group health insurance at any given time is unknown. Neither commercial insurers nor Blue Cross-Blue Shield plans can provide pertinent data because their regular recordkeeping does not readily identify the workers on layoff. A few special studies, however, have yielded some information on the extent and nature of protection afforded.

One study, made for a union,[4] covered the experience of hundreds of companies (including basic steel and aluminum companies) that have contracts with the Steelworkers. The plans in question provided continuation of group hospital and surgical coverage for 6 months at company cost for employees with at least 2 years of service, and to the end of the month of layoff for those with less service. Life insurance was extended for all employees for up to 6 months at company expense, and for an additional 18 months at a cost to the employee of 60 cents per $1,000 of insurance. These companies reported that, in December 1963, 36,000 employees on layoff were covered by hospital and surgical insurance and 51,000 had life insurance coverage. The report indicated that a 6-month extension of health insurance coverage was not long enough to provide adequate protection. It concluded that "the difference between the numbers of laid-off employees covered for life insurance and for hospital and surgical benefits, as well as the general record of employment in the industry since 1960, show that many employees continued on layoff after their 6-month period [of continued] coverage has expired."

Another study, conducted by the University of Michigan, stressed the ineffectiveness of health coverage continuation and pointed out weaknesses in employer-employee communication regarding rights to convert to individual coverage. It revealed that most workers dropped coverage even when offered a chance to continue at group rates.[5] Under the plan studied, health insurance coverage was continued for 2 months after layoff at no cost to the worker. The worker could continue coverage for as long as an additional 12 months by paying the group rate each month. Continued coverage after that period was available at individual rates. A third of the workers did not continue coverage after the 2-month "free" period elapsed, and another fourth dropped coverage later. The remainder continued coverage, returned to employment in the group, or joined other groups.

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[2] Excludes brief extensions of coverage, such as to end of month of layoff and end of month following month of layoff. The estimate of 50 million was derived from the information in Alfred M. Skolnik, "Ten Years of Employee-Benefit Plans," *Social Security Bulletin*, April 1966, p. 6.

[3] Benefit coverage is continued for all employees for a month after the month in which the layoff began. Thereafter, employer-financed health benefits are extended on the basis of 1 month's benefits for each 4 weeks of supplemental unemployment benefits to which the employee is entitled. The employee may then continue his health insurance for 12 months beyond the period of company financing by paying the group rate premium.

[4] *A Special Report on Your Union's Programs of Employment and Income Security*, Twelfth Constitutional Convention, United Steelworkers of America, Atlantic City, N.J., September 1964.

[5] Walter J. McNerney and study staff, University of Michigan, *Hospital and Medical Economics*, vol. 2 (Chicago, Hospital Research and Educational Trust, 1962), p. 1121.

The results of the University of Michigan study are borne out by limited data obtained from case studies conducted by the Bureau. For example, in one firm where coverage after layoff was contingent upon the employee's contribution, the vast majority of workers lost coverage because they did not make the small payment required. Then, upon the union's request, the firm agreed to deduct the amount from the final paycheck of workers not specifically requesting that their coverage be discontinued. Before introduction of the new procedure, approximately 3 out of 4 workers lost or dropped coverage. After the change, about 3 out of 4 workers maintained coverage.

## Insurance Considerations

The practice of continuing health insurance coverage during periods of layoff has largely developed during the past 15 years. Although this growth can be attributed, in large part, to union efforts to protect workers during layoffs, it may also be traced to the general easing of underwriting rules for eligibility for group coverage by prepayment plans, such as Blue Cross and Blue Shield, and by commercial insurance carriers. Requirements for size of group, dependents' coverage, definition of group, age limits, and continuation of coverage during retirement and unemployment have undergone change stemming from a variety of social and economic pressures, especially collective bargaining. However, continuation of group health insurance coverage during layoff involves participation in a group by persons for whom an active employer-employee relationship—the heart of group insurance underwriting—no longer exists. For this reason, among others, the insurers have not been inclined to encourage lengthy periods of layoff coverage.

Most commercial insurers now consider the extension of coverage for limited periods during temporary layoffs as a feasible underwriting practice. Their reluctance to extend such periods stems from the belief that claims experience during layoff is higher than during active employment because of "saved-up medical care" (especially elective surgery) and adverse selection. The latter is especially important in plans requiring employee contributions, because self-selection usually results in adverse selection. Thus, employees who anticipate they will have health care expenses for themselves or their dependents continue their coverage more often than those who, because of better health, the absence of postponed surgery, and so forth, expect they will not have such expenses. However, despite these reservations, major insurers have standard policy provisions for continuation of coverage to the end of the month following the month of layoff.[6] At the employer's request, these general limits may be, and often are, substantially liberalized.

***Cost.*** When laid-off workers are continued under group insurance plans, a direct cost to the employer obviously accrues. Since there is no outflow of workers from the group until their continuation of coverage ceases, additional premiums are incurred. Moreover, if the laid-off worker group, as mentioned above, is a high risk group owing to adverse selection and higher utilization, average premiums per covered worker may also increase.

Comprehensive information on the direct costs of extending coverage during layoffs is not available. Fragmentary data suggest that, in the long run, the increased cost attributable to extension would be relatively small in relation to the cost of the entire group insurance plan.

In one case brought to the attention of the Bureau, a major insurer reported that, during a 4-year period, the claims for workers on layoff accounted for less than 1 percent of the total claims each year. Under this plan, liberal group insurance benefits, financed by the employer, were continued for 3 months after layoff. Only 1 employer out of the 10 included in the Bureau's case studies was in a position to estimate the increased cost owing to extended benefit provisions. For this plan, group life and health insurance was extended for 6 months at employer cost. According to the company, about 6 percent of the average premium cost of group insurance could be attributed to extended benefits, but this figure included coverage for workers on leave of absence, on sick leave, and absent from work for other reasons.

Some idea of the direct cost involved when layoffs are especially prevalent can be derived from the already cited report to the 1964 convention of the Steelworkers. The union and the basic steel companies agreed in 1960 that the companies would be reimbursed for increases in the monthly cost of the group insurance program over a base figure ($20.16) per employee. The additional payment was to be met from the cost-of-living adjustment, which otherwise would have been payable in wage increases. According to the report, a total of 4.5 cents of the maximum 6 cents

[6] According to insurance company officials, this limited continuation makes sense for several reasons. The temporary layoff may necessitate, in absence of continuation, burdensome administrative expenses of terminating and subsequently reinstating a worker's coverage in the group plan. If the worker has been contributing to the cost of coverage, it would usually be necessary to reimburse him if he is not covered until the end of the month. From the public relations viewpoint, it would also create a problem in discriminating between workers laid off at the beginning of the month and those laid off later in the month.

of cost-of-living adjustment over the 3-year period, marked by considerable layoffs in the steel industry, was retained by the companies as reimbursement for increases in insurance costs. The report stated, "A major factor in this increased cost was the new provision negotiated with the major basic steel companies in January 1960 to continue insurance coverage for laid-off employees." [7]

***Utilization.*** Information on utilization rates (i.e., frequency of claims) for workers on layoff is not available, primarily because it is not collected. One insurer said, on the basis of limited studies, that "while no one study can be conclusive, a pattern of increased claims costs seems to be characteristic of each one." This comment would seem to summarize the attitude of insurance officials that, in general, utilization of medical care services—hospital, surgical, and medical benefits—is greater for workers on layoff than for those in active service.

The intensive study by the University of Michigan of the utilization rates of workers covered by health insurance during layoff supports this view. The summary of the report reads, in part:

"Admission rates, average lengths of stay, and utilization rates were markedly higher during the layoff period than during the year prior to layoff, or during comparable months in the prior year. This was especially true in the months following layoff, when group coverage and loss-of-income coverage, both prepaid, were still in effect. For example, the annual utilization rates during the layoff period ranged from 1.5 to 7.9 times those for comparable months in the previous year (for the same subscribers) depending upon the subgroup considered. Looking only at March 1958 (the month following the layoff), the utilization rates, depending upon the subgroup involved, were from 6 to 14 times those for the 1957 control period." [8]

## Employer and Union Attitudes

Although continuation of benefits during layoff has been usually initiated by the union, only rarely was the issue among the major union demands or employer offers during negotiations. Typically, according to union officials, the issue was brought to the bargaining table as part of a health insurance package demand, with little attention being given to its effects and costs. On occasions when costs were discussed, the unions had very little information and consequently minimized the costs. They recognized, of course, that an expense was involved, but as one union official put it, "We tell the company that there wouldn't be any cost if they had no layoffs." All of the union officials interviewed felt that benefit continuation served a very important social welfare purpose in "protecting workers who can least afford to be hit by medical costs."

Since all of the plants studied had layoffs in the past year, the union officials seemed well informed about recent experience of the plans. They commented that the maximum duration of coverage provided during layoff was negotiated in part on the basis of past layoff history and in part "pulled from the hat." One official commented that "the practice [stemmed from] the seasonal nature of the business." The officials said that this issue was not given too much attention during negotiation, unless a very long continuation period was involved. In most cases, the union felt that, in the light of past experience, the duration of coverage was ample. Extension periods of 2 or 3 months covered the typical situation. In programs with longer extension periods (e.g., 6 to 12 months), the union officials said that this was sufficient to cover any of their layoffs. However, this did not mean there was no room for improvement, since "who knows what can happen in the future." Despite this, according to the officials interviewed, liberalization of the extension provision was not contemplated for the next negotiation.

Interviews with management officials revealed mixed opinions as to the reasons for the development of the extension practice. An official of one company indicated that extended benefits had been provided as early as the 1930's because the company felt that "workers on layoff needed this protection as much as active workers." He believed that employee benefits, such as insurance and pensions, should be jointly financed so that workers would have a greater appreciation of company efforts to "help the workers help themselves." As a result, the official said, a high proportion of workers would elect to join the plan, and a large number would continue membership after layoff.

[7] United Steelworkers of America, op. cit., p. 11.
[8] McNerney, op. cit., pp. 1127–1128.